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Message Text

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ACTION NEA-12

INFO OCT-01 ADP-00 L-03 NSC-10 CIAE-00 INR-10 NSAE-00

PA-03 RSC-01 USIA-12 PRS-01 EB-11 COME-00 TRSE-00

XMB-07 SCEM-02 INT-08 OMB-01 OPIC-12 CIEP-02 AID-20

EUR-25 FRB-02 RSR-01 /144 W
---------- 115828
R 051133 Z APR 73
FM USINT CAIRO
TO SECSTATE WASHDC 2852

S E C R E T CAIRO 1016

EO 11652: GDS
TAGS: BPRO
SUBJECT: KIDDER PEABODY PROPOSAL FOR SUMED

1. ROGER TAMRAZ, VICE PRESIDENT OF KIDDER PEABODY, GAVE USINT ON CONFIDENTIAL BASIS COPY OF LETTER WHICH TAMRAZ SUBMITTED

TO THE CHAIRMAN OF THE SUMED PIPELINE PROJECT ON APRIL 3. IN THIS LETTER TAMRAZ OFFERED TO BRING TEAM OF BANKERS AND ENGINEERS TO CAIRO TO DISCUSS TECHNICAL ASPECTS OF THE SUMED PIPELINE PROJECT AND PREPARE A NEW PROPOSAL FOR A TURN KEY JOB WITH BECHTEL OR MORRISON- KNUTSEN AS HEAD CONTRACTORS AND KIDDER PEABODY ALONG WITH FIRST NATIONAL CITY BANK AS HEAD BANKERS.

2. TAMRAZ POINTED OUT THAT DESIGNATION OF AMERICAN ENGINEERING FIRM AS PRIMARY CONTRACTOR FOR SUMED WOULD INVOLVE MAJOR INCREASE IN EXPORTS OF US GOODS AND SERVICES AND SUGGESTED THAT IT WOULD BE VERY HELPFUL TO KIDDER PEABODY IF THEY COULD INCLUDE IN THEIR PACKAGE PROPOSAL AN EXIM BANK GUARANTEE OF APPROXIMATELY 100 MILLION DOLLARS TO COVER US EXPORTS AND A COOLEY LOAN OF APPROXIMATELY 40 MILLION EGYPTIAN POUNDS TO EASE GOE' S BUDGETARY PROBLEM OF PROVIDING THE LOCAL CURRENCY COMPONENT.

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3. TAMRAZ CONTEMPLATING TOTAL FINANCING PACKAGE OF APPROXIMATELY 358 MILLION DOLLARS AND 40 MILLION EGYPTIAN POUNDS. OF THIS TOTAL 217 MILLION DOLLARS IN EXPORT CREDIT GUARANTEES HAVE BEEN PLEDGED BY VARIOUS EUROPEAN GOVERNMENTS ALTHOUGH FRENCH MIGHT DROP THEIR 40 MILLION DOLLAR COMMITMENT IF A US CONSORTIUM WINS THE CONTRACT. WITH AN EXIM GUARANTEE OF 100 MILLION DOLLARS, TAMRAZ BELIEVES HE CAN OBTAIN THE REMAINING FOREIGN EXCHANGE FROM ARAB AND OTHER SOURCES.

4. SINCE FRENCH BANKERS ARE WELL ALONG IN CONCLUDING FINANCIAL ARRANGEMENTS FOR SUMED, THEY WILL UNDOUBTEDLY MOVE RAPIDLY TO WRAP UP THE PROJECT AS SOON AS THEY GET WIND OF THE KIDDER PEABODY PROPOSAL. IT IS THEREFORE IMPORTANT THAT KIDDER PEABODY BE ABLE TO MOVE QUICKLY TO KEEP THE FRENCH FROM SEWING UP THE DEAL.

5. TAMRAZ SAID HE HAD BEEN ASKED BY THE GOVERNMENT OF EGYPT TO TRY TO ARRANGE THE FINANCING FOR THE REMAINING GAPS IN THE FRENCH PROPOSAL AND HE HAD INSISTED ON KNOWING MORE ABOUT THE FRENCH PROPOSAL BEFORE HE COULD UNDERTAKE TO ASSIST IN OBTAINING THE FINANCING. THE GOE HAD BEEN RELUCTANT TO GIVE HIM FULL INFORMATION, BUT HE NOW HAS ENOUGH TO CONVINCE HIM THAT HE COULD OFFER A BETTER PROPOSAL THAN THE FRENCH, PARTICULARLY IF IT INCLUDED EXIM BANK GUARANTEES AND A COOLEY LOAN.

6. TAMRAZ SAID THAT HIS PROPOSAL WOULD BE CONDITIONAL ON OIL COMPANY COMMITMENTS FOR A TOTAL OF 60 MILLION TONS OF THROUGHPUT FOR THE PAYOUT PERIOD. WITH THESE GUARANTEES, THE FEASIBILITY OF THE PIPELINE WOULD BE ASSURED.

7. TAMRAZ REALIZES THAT A FORMAL APPLICATION FOR EXIM LOANS AND GUARANTEES OR COOLEY LOANS MUST ORIGINATE WITH THE AMERICAN BUSINESS FIRM AND MUST BE SUBMITTED DIRECTLY TO THE RELEVANT AGENCY OF THE US GOVERNMENT, BUT HE WANTED TO GIVE USINT A FULL BRIEFING ON HIS APPROACH SINCE USINT WILL UNDOUBTEDLY BE ASKED FOR ITS OPINION ON THE POLITICAL ASPECTS.

8. IN OUR VIEW, A US LEAD IN REALIZATION OF SUMED WOULD BE AN IMPORTANT STEP IN IMPROVING THE CLIMATE OF RELATIONS BETWEEN UNITED STATES AND EGYPT. IT WOULD ALSO BE A STEP IN THE DIRECTION OF RELIEVING SADAT OF HIS ECONOMIC DEPENDENCE ON QADHAFI AND THE SOVIET UNION WHICH IS PRESENTLY PLACING

SERIOUS CONSTRAINTS ON HIS POLITICAL OPTIONS. IN ADDITION, OF

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COURSE, IT COULD MEAN A
BIG BOOST IN THE EXPORT OF US GOODS AND SERVICES AND WOULD
PROVIDE A FACILITY FOR THE USE OF AMERICAN
OIL COMPANIES IN TRANSPORTING CRUDE OIL FROM THE GULF TO THE
EUROPEAN MARKET. THIS COULD GIVE US OIL COMPANIES A COMPETITIVE
ADVANTAGE IF THEY RESERVED THE CAPACITY OF THE
PIPELINE FOR THEMSELVES. WE ARE NOT IN A POSITION TO JUDGE
THE ECONOMIC FEASIBILITY OF THE PROJECT, BUT IT SEEMS REASON-
ABLE THAT THE THROUGH- PUT CONTRACTS WOULD BE ADEQUATE TO ASSURE
FEASIBILITY FOR THE BANKERS AND CONSTRUCTION FIRMS. THE
PROJECT AS CONTEMPLATED BY TAMRAZ WOULD HAVE ADEQUATE SECURITY
FOR THE EXIM BANK AND OTHER LENDERS BECAUSE THE TRANSIT FEES
WOULD BE DEPOSITED IN ESCROW WITH AN AGREED PORTION PAID OVER
TO THE EGYPTIAN GOVERNMENT TO COVER THE OPERATING COSTS. THE
CREDITORS WOULD THUS BE INSULATED FROM EGYPTIAN EXCHANGE
CONTROL REQUIREMENTS OR DEFAULTS ON PAYMENT BY EGYPTIAN
GOVERNMENT.

9. FOR THESE REASONS WE RECOMMEND FAVORABLE CONSIDERATION
BE GIVEN TO USG PARTICIPATION IN FINANCING THIS PROJECT AS
SOON AS PROPOSAL IS RECEIVED FROM THE CONSORTIUM.
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*** Current Handling Restrictions *** n/a
*** Current Classification *** SECRET

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts:
Control Number: n/a
Copy: SINGLE
Draft Date: 05 APR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973CAIRO01016
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: n/a
Film Number: n/a
From: CAIRO
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1973/newtext/t19730432/aaaahnxk.tel
Line Count: 141
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 10 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10-Dec-2001 by kelleyw0>; APPROVED <03-Jan-2002 by morefirh>
Review Markings:

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US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 971121
Subject: KIDDER PEABODY PROPOSAL FOR SUMED
TAGS: BPRO, EG, n/a
To: NEA
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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